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Research Bulletin

No. 187

The Conference Board

Foreign Competition and U.S. Trade Policies

Executive Views and Company Activities

by Seymour Lusterman

Management Summary

- Three factors account for most of the difficulties encountered recently by 295 surveyed United States firms in meeting foreign competition, domestically and overseas—the high dollar, lower foreign costs, and foreign government support to national industries.
- Responses to the new foreign competition have typically included marketing, investment, and legal measures, as well as public-affairs efforts.
- All but a few large firms say that trade issues have grown in importance to their business interests during recent years, and more than three out of five have sought to influence U.S. trade policies.
- Protectionist steps are urged by 38 percent, and government subsidies, loans or tax benefits by 44 percent. Nearly two-thirds ask for one or both of these measures.
- Seven participants in ten expect trade issues to become more important to their companies in the years just ahead than they are today.

CORPORATE RELATIONS PROGRAM

This report is based on responses by 295 major United States corporations, 95 percent of them manufacturing companies, to a Conference Board survey, conducted by mail from late July through early October, 1985. It examines the experience of these firms in meeting foreign competition during the past five years, the efforts they they are devoting to trade-policy issues, their views about the role of the government, and their thoughts about the future. Survey responses were chiefly from CEO's and public-affairs executives.

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I. Recent Developments and Their Effects

Beset in recent years by greatly intensified foreign competition—both in their domestic and overseas markets—all but a handful of the surveyed companies have come to regard foreign trade as a major public policy issue. A quarter of the participants now rate it as their top issue, another half as of more-than-average importance.

Competing in the U.S. Market

Difficulties experienced during the last five years in competing profitably and effectively against foreign competition in the United States are attributed principally to three of a number of factors listed in the Board's questionnaire.

Value of the dollar: The greatest proportion—77 percent—say that harm has come to their companies from the high value of the dollar. Most rate the harm as "considerable." A metal products fabricator serves as an example: "Until the dollar began its climb, we had no foreign competition. Today we have been forced to give up some of our markets and products lines. We can no longer compete profitably." At least half the members of every major industrial group report that business has been hurt considerably by the high dollar.[1]

Foreign governments' support to their national industries: Seven in ten respondents report that their companies' U.S. businesses have been harmed—considerably in most cases—by imports from firms enjoying special support from their governments. Crucial advantages are said to be gained by foreign competitors from subsidies, tax incentives, low-interest loans, export credits, capital grants, and research and development programs—measures often tied to national economic-development goals. It is also noted that state-owned or controlled businesses often compete, in one participant's words, "without regard for market forces."

Sizable numbers of participants—in most cases, half or more—from the following industry groups say they have been "considerably harmed" by foreign governments' subsidization of national industries: food; textiles; oil and petroleum refining; leather; stone, clay and glass products; primary metals; fabricated metals; machinery manufacture; transportation equipment.

[1]Companies are grouped according to their two-digit Standard Industrial Classifications (SIC(s)). The six most commonly-represented groups, comprising 154 firms (52 percent of the total), are: machinery manufacturers (47 firms); electrical machinery and equipment manufacturers (34); fabricated metal products manufacturers (19); primary metal industries (18); instruments manufacturers (18); food and kindred products manufacturers (18); All other manufacturing groups and most non-manufacturing are represented by one or more firms.

Lower foreign costs: Seven in ten participants also say their companies have been harmed by imports from countries with lower labor, materials or other costs, than those in the United States. Contributing to their competitive disadvantage, some note, are costs borne uniquely by U.S. firms for a variety of social ends—from social security to environmental protection. "Superfund taxes alone give nearly a $7-a-ton cost advantage to the foreign producers of one of our major products," a chemical company executive comments. Virtually all industry groups are represented in substantial numbers among those citing this problem. Included are all of those harmed by foreign governments' support to national industries, as well as makers of furniture, leather and rubber products, electric machinery, and electronic equipment and instruments.

Other factors were mentioned by smaller proportions of respondents.

Actions by the U.S. Government: One-third of the participants say their companies have been harmed in greater or lesser measure by changes in United States tariffs or import quotas, by the government's administration of trade matters, by its tax policies, or by its export programs. Speaking for an instruments manufacturer, one comments, for example: "'Operation Exodus,' and efforts to curb high-tech exports through unilateral controls and restrictive interpretations of export regulations, have created barriers to effective competition in many foreign markets. Bureaucratic delays have often put United States companies in the position of not being able to respond to inquiries or potential orders, while foreign firms are not so encumbered.'"

Some complain, too, of inaction by the government, most often of a failure to enforce existing trade agreements and to do anything about acknowledged dumping. A much smaller group reports having been benefited by U.S. actions, though most say these have had little or no effect.

Product changes: Foreign products of improved quality, design or technological sophistication have been harmful to the business of about one in six companies, participants say. But a larger group, one in four, reports that the product improvement—and, thus, the competitive gain—has been on its part.

Overall. . .

- 52 percent of respondents say their firms have been harmed—considerably in most cases—by one or more of the developments noted above and have benefited by none of them;
- 37 percent have been harmed by one or more developments, but have benefited by others. The harm appears greater than

the benefit in most cases, however. Typically, it has multiple sources and is judged to be considerable in degree. Benefits usually derive from a single development—most often, improvement in the quality or design of company products—and are much more likely to be described as "moderate."

- 4 percent report that the only effects of recent developments have been beneficial;
- 7 percent say that none of the developments has had more than slight effects, if any, on their ability to compete profitably and effectively.

Competing in Foreign Markets

The kinds of developments that have acted powerfully on domestic markets have been felt in much the same ways overseas, according to the four out of five participants whose firms do business outside of the United States. The high value of the dollar is the most frequently mentioned source of competetive disadvantage in this area also: 68 percent say it has harmed their firms "considerably." Subsidies and other forms of government support to national firms, as well as pressures from countries with lower labor, material and other costs, are also cited frequently.

Insofar as export support and promotion programs of the U.S. government have changed during the past five years, the effect has been harmful to more of the surveyed companies than have benefited, according to participants—19 percent versus 4 percent.

Nationalities of Competing Foreign Firms

Japan is mentioned by respondents far more often than any other country as the national home of their major foreign competitors—both in United States markets and overseas. Western European countries as a group, however, are identified by a much larger number. Taken together, the newly industrializing countries (NIC's)—South Korea, Taiwan, Brazil, Mexico, Hong Kong, and Singapore—also outrank Japan, though only in domestic market competition.

Nationalities of chief U.S. competitors	*In U.S. markets*	*In foreign markets*
Western Europe	62%	76%
NIC's	59	24
Japan	44	43
Other	15	5

Whether harmed greatly by them or not, participants list the nationalities of their chief competitors in much the same order and frequency.

Multiple Factors

Many participants note that recent developments have worked in tandem against company interests. For example:

A steel company: "Over the past five years, steel markets outside the United States have become more and more closed, leaving the U.S. market the only major market in the world still open. This change, combined with subsidization of overseas producers and the high value of the dollar, caused imports to increase steadily. At the same time, the currency imbalance created massive imports of steel-intensive products, particularly capital goods. Since the manufacture of capital goods represents approximately 70 percent of steel consumption in the United States, this greatly depressed the purchase of steel by our primary customers."

A brewer: "The very high dollar has caused long-standing problems of tariff barriers and protectionism to assume an inordinately high profile. As a result of this combination of factors, our products have been unable to compete effectively overseas—and have been forced to withdraw completely from some countries. The problem abroad is contrasted in the United States, where our products now face heightened competition from imports that benefit both from their weak currencies and a negligible beer tariff. As a result we now, selectively, seek reciprocal treatment: We do not appreciate prohibitive tariffs—or even blanket prohibition of entry—from countries we permit to compete here openly and without any barrier, tariff or otherwise."

An oil company: "Over the last three years, imports of gasoline have tripled. Gasoline is the bread-and-butter product of the U.S. refining industry. Foreign refiners have two advantages over U.S. refiners. For the most part, they don't have the added cost forced on U.S. refiners by environmental, tax, health and safety, and transportation laws (e.g., lead phasedown, OSHA regulations, and other requirements). Also, foreign refiners have access to state-owned crude oil. Middle East refiners, for example, keep the world price of crude oil on the international market artificially high, while they transfer this raw material at little or no cost to their own refining divisions. These products would logically go to closer markets, like Japan and Europe, but trade barriers in those countries all but eliminate petroleum-product imports. Consequently, these products are shipped to the United States at whatever prices the market will bear. Often, the finished products sell for less than the crude oil."

II. Responsive Strategies

Prominent among the strategies U.S. firms have adopted in response to the greatly intensified foreign competition of recent years are efforts to influence the trade policies of governments and quasi-governmental bodies—most commonly those of the United States, but, among some firms, of foreign nations—and of such international entities as the European Community and the General Agreement on Tariffs and Trade (GATT).

As shown below, other strategies have also been widely pursued during the past five years.

	Percent of Surveyed Firms Pursuing Strategy for Each Target Area		
	The United States	*Foreign Markets*	*Either or Both*
Marketing Strategies			
Reduce prices for company products to meet foreign competition	55%	41%	72%
Modify or change company products to enhance their marketability relative to foreign products	38	35	53
Increase or otherwise change advertising, promotional or other marketing efforts to meet foreign competition	28	18	37
Other marketing strategies	5	5	8
Investment Strategy			
Initiate operations, or enter joint ventures, outside the United States in order to gain entry into markets or become more competitive	22	48	59
Other strategies			
Increase imports of component parts for assembly in United States	37	10	39
Initiate legal proceedings in the International Trade Commission to stop dumping or other unlawful practices by trading partners	15	4	19
Ask the U.S. government to initiate proceedings in the GATT for rulings on unfair trade policies	14	4	17
Initiate or increase barter or countertrade agreements	2	12	14
Other	7	4	10

III. Trade Policy Activities and Concerns

Almost three out of four (72 percent) of all surveyed firms—and an even higher proportion of the largest ones—have sought to influence the trade policies, directions or priorities of the U.S. government during the past five years. Their efforts have taken various forms, but in most cases have been pursued collaboratively. Thus, nearly two-thirds report participation by company personnel in trade-related policymaking, planning or lobbying activities of trade associations and other business groups. About two in five say the firm has been represented on advisory bodies to government agencies or legislative groups dealing with trade matters. A like number have engaged directly in lobbying. Other, less common, means of trade-policy advocacy include advertising—reported by 7 percent of participants.

If the largest firms are found in disproportionate numbers among companies trying to influence U.S. policy, it is among the smallest ones that concern over trade issues has risen most widely in recent years.

	1984 Sales		
Report that U.S. trade policy	*Less than $100 million*	*$100 to $999 million*	*$1 billion or more*
Has increased considerably as a company concern	59%	51%	47%
Has become the company's top public-policy concern	31	23	17

IV. Positions on Trade Policy

The public-policy measure most widely advocated—by 69 percent of respondents—is government action designed to lower the value of the dollar. Almost as many favor efforts by the United States to negotiate bilateral and multilateral agreements aiming at eliminating or reducing trade barriers.

But some of these same respondents join others in advocating protectionist measures as well. Often arguing that only the United States plays by the rules of free trade, nearly two out of five (38 percent) of those surveyed want higher tariffs or reduced import quotas to protect companies like theirs against foreign competition. Most say they previously advocated free trade and have come to this position only within the past five years.

A few hedge their new protectionist views with qualifications—as a step to be taken only if last-ditch efforts at negotiated agreement fails—or stress other approaches. A machinery company executive, who says he now favors protectionist measures comments, for example: "We are encouraged by increasing evidences of recognition that there are middle and fair grounds between the extremes of free trade and protectionism. While generally not favoring government intervention in business, we feel that the U.S. government must do much more to help strengthen the competitiveness of U.S. business in world markets; to help open overseas markets to U.S. products; and, through negotiations with other governments, to assist as partners with American business in the sale of U.S. products in world markets."

Government subsidies, tax benefits or loans are advocated by 44 percent of participants. Including those calling for both protection and other government support, nearly two-thirds advocate further government intervention on behalf of U.S. companies.

Most of those who want such help from the government would also extend it to firms in industries other than their own. Many want protection for auto makers or other industries that employ large numbers of workers. Another sizable group wants such help for "heavy," "basic" or "capital goods" industries—some mention steel firms—and for companies essential to national defense. "The United States must keep its manufacturing base," a high-tech company executive says. Some would protect any domestic manufacturer that faces subsidized foreign competition. Others ask the same for firms in the electronics, computer, semiconductor or "high-tech" field. Specific industries—notably textiles, furniture, paper, shoes, chemicals, agriculture and refining—are singled out by one or two participants who themselves represent other types of companies. A very small number—nine of the 295 firms in the study—would provide protection only for other kinds of companies than theirs.

Variations in Protectionist Views

Protectionist sentiment is most prevalent among the smallest of the surveyed companies and least so among the largest. So, too — though the differences are not as wide—is advocacy of government subsidies, tax benefits, and loans.

	1984 Sales		
Favor help for companies like theirs and/or others	*Less than $100 million*	*$100 to $999 million*	*$1 billion or more*
Protection through tariff or quota measures	51%	44%	26%
Support through subsidies, loans, tax benefits	52	50	36

On the other hand, three-quarters of the largest firms indicate support for efforts to eliminate or reduce trade barriers through negotiations as compared with slightly over half of the smallest. Negotiations in pursuit of voluntary agreements are favored almost as often by firms that have themselves escaped competitive harm in recent years as by those that have not.

Protectionist measures—and steps to lower the value of the dollar—are far more likely to be favored by the harmed than the unharmed, however. Respondents who say their companies have been harmed considerably by foreign governments' subsidization and export-promotion measures are six times as likely as those unaffected by them to favor higher tariffs or lower import quotas—71 percent as compared to 12 percent. Sixty-eight percent of those "harmed considerably" by imports from countries with lower labor, material or other costs favor higher tariff or import-quota barriers as against only six percent of those that are unaffected by such competition.

Arguing for Protection

A large majority of those advocating protectionist measures, subsidies, and the like, say they have come to this view reluctantly, usually arguing their case on the basis of equity or urgent national interests. Most appear to see protectionist moves as a temporary measure—a device that will give the United States leverage in seeking fair-trade agreements with other nations. "The era of managed trade has arrived and we do not believe in unilateral disarmament," a steel executive says. Another, speaking for a metal fabricating firm observes: "We are increasingly more pessimistic about the prospects of free trade and bilateral trade-liberalization negotiations. It seems that foreign governments will respond only to genuine threats."

Some other comments:

A fabricated metal products company: "We have become increasingly aware in recent years of the growing unbalance of trade and its causes—namely, subsidies and other means of protectionism practiced in countries other than the United States. We are basically advocates of free trade and have strongly supported the Administration's efforts to preserve it from protectionist elements. However, our current position is that immediate and decisive countervailing actions must be im-

plemented in the absence of open borders or truly reciprocal measures from our major trading partners, particularly Japan. Let's quit dancing around the basic question of reciprocity and use the leverage we enjoy as the world's largest and most attractive market before it is too late. We have talked long enough."

A primary metals manufacturer: "We want to see fair trade rules. But in the past five years it has become readily apparent that there is no 'fair' trade in the world in the face of: (1) foreign governments' subsidies to their industries; (2) overcapacity relative to basic needs, which requires subsidized foreign industries to export excess capacity to the United States; and (3) strong trade barriers to our exports of competitive products. The so-called free-trade concept under GATT exists only as a concept—the rest of the world espouses it, but practices strong controls of trade flows. The United States is naive in the trade area and must wake up before our industrial base is totally emaciated.'"

A musical instruments manufacturer: "It's a world market: all industries must be competitive on that basis. The U.S. policy of jawboning will not and has not worked, as seen in our trade relations with Japan. Strict trade parity on all products in all markets is the only language foreign exporters will understand. Until trade parity is a reality, strictly enforced—so that, if U.S. exports are restricted by any country, its imports into the United States will be restricted in a parallel way—no amount of U.S. government publicity or exhorting U.S. manufacturers to export will work."

A precision-tool and instrument manufacturer: "We want free and fair trade. 'Fair trade' means eliminating governmental actions that allow foreign companies to come into the United States and undercut prices. These actions—deliberately undervaluing the yen, for example—and various subsidies by foreign governments, are unfair. Protectionism does not mean protection against companies but against foreign goverments' actions that make a mockery of free trade. There ain't no such thing today except on the part of the United States. The answer is to slap a 20-30 percent tariff on all imported goods until foreign governments rescind actions that unfairly favor their industries.'"

An oil, gas and mining company: "We have historically favored free trade—but on a level playing field. Our capacity to compete with foreign producers has been seriously and adversely affected by the strength of the U.S. dollar—a result of U.S. Government deficits, environmental regulations that have imposed substantial additional capital costs, subsidized loans to foreign producers, nationalization of foreign producers and their operation without regard to market forces, and excessively high labor costs (our fault). We have sought some relief through temporary quotas to permit us to improve our productivity and enhance our competitiveness."

A concrete products manufacturer: "We are not against imports that compete on a fair basis. We favor countervailing duties on imports that receive government subsidies from their home countries. We favor U.S. government intervention when a strong case is made that foreign imports are sold at 'dumping' prices.'"

Arguing for Free Trade

The 38 percent of respondents who oppose or do not favor either protectionist measures or subsidies for U.S. industry say they speak for the longer term interests of their companies, the nation, or the world economy. A paper products manufacturer states the extreme position: "We believe that no impairment of free trade can ever be justified. If other countries do wrong, it is in our self interest to turn the other cheek." Some other comments:

An oil company: "We have an aversion to subsidies, quotas and tariffs—all of which encourage economically inefficient activities. Thus, we support GATT and a vigorous prosecution of unfair trade practices when they occur."

A high-technology company: "We remain staunchly free trade, even though we acknowledge there are too many trade barriers and other considerations. Our business has benefited from a relatively open world trading system: We would profit from still freer trade, not closed markets."

A food company: "We oppose isolationism, nontariff barriers, dumping and all of the other major hinderances to free trade. We think the protectionist policies of the European Community and Japan are potentially disastrous, and hope the escalation does not result in a major trade war."

A machinery manufacturer: "We firmly believe that protectionism—by any government—is very harmful as it only invites retaliation and cuts the world market up in small pieces. A general elimination of trade barriers—in the United States and abroad—is the best cure for economic stagnation and for giving the best-managed company a chance to win the competitive battle."

V. Looking Ahead

Whether they favor more protection and government support for United States companies, oppose it, or have no definite opinion, most participants (71 percent) expect trade issues to become more important to their firms in the coming years than they are today.[2]

Some expect this as a concomitant of stepped-up investments and marketing efforts by their firms in foreign countries. As they "shift to overseas production to supply U.S. demand," or "look for increased international revenues to maintain sales and profit growth rates," or "expand international investments," firms expect their stake in trade-policy matters to rise correspondingly.

A second group sees no significant respite for their companies—or for the economy, or the country—from the factors that have been responsible for increased foreign competition, many expecting the damage to cumulate as time goes by. Some point to the fact that the United States market is attracting a mounting volume and variety of goods from firms in a growing number of countries. "The United States is the marketplace of the world," an electronics company executive says: "Every foreign country with manufacturing is trying to get a piece of the action by hook or crook."

Foreign governments often play a key role in this, participants note. A manufacturer of pumps says that Japan "has targeted the U.S. market and plans to buy its way into it" for national firms in that business. Similarly, an oil company executive anticipates that "Middle East expansion into the downstream petroleum business—that is, refining—will grow as a result of projects already under construction. The United States is the most likely target for their products." The difficulties mount, many respondents say, as foreign firms that have achieved a "marketing presence" in the United States increase their productive capacities. "As foreign products gain acceptance, a snowball effect further erodes the hold of U.S. firms on their markets", a machinery manufacturer comments.

The competitive advantages enjoyed in recent years by the many overseas firms attracted to U.S. markets are expected to continue. "Foreign companies got their foot in the door because of the high dollar, and will move into the house as it remains high," one participant comments. Others make much the same point about the lower labor costs of less-developed countries and about foreign governments' aid to national firms.

United States' actions will probably worsen their companies' prospects in foreign markets, several comment. "We are a defense contractor," one says, reporting for an electronics firm, "and expect licensing of our products for export to be further restricted." Another in the same industry observes that "exporting electronics is becoming more difficult procedurally." Still another, a rubber-company executive, anticipates that the United States will make "additional concessions in GATT, including potential revocations of steel import quotas."

A quite different concern is voiced by executives still committed to free trade. Their fear is that rising pressures will make protectionism more difficult to "fend off"—and will draw their companies into a long-term struggle. A food company executive comments: "United States' protectionism could have a severely negative impact on our operations in the United States and worldwide."

About three participants in ten do not expect trade issues to become more important for their companies in the coming years. Most do not think they will become less important either—or represent firms that have escaped harm from foreign competitors. Five of the participants do expect trade issues to become less important for their companies in the years just ahead than they are now. In at least one case, this is because the company is withdrawing from foreign markets. In others, it reflects the belief that government help is not far off.

[2]The five-nation agreement of late-September, 1985, aimed at lowering the value of the dollar, and the recent commitments of the Administration to support U.S. business in other ways as well, occurred after most responses to this survey were prepared. But follow-up inquiries with 24 participants suggest that business views about the trade outlook have changed little, if at all, as a result.

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Research Bulletin

The Conference Board

Labor Outlook 1986

No. 188

by Audrey Freedman and others

Management Summary

- Wages and compensation will increase modestly in 1986—just about keeping pace with inflation.

- Unemployment will remain at about the same level (7.1%) throughout 1986. New job creation will equal the normal growth of the labor force.

- The wave of corporate restructurings will continue. It is undermining the career security of executive, managerial, and salaried employees. Their confidence in corporate stability may be giving way to a more self-determined and self-reliant behavior. The organization man, the "company-minded man," may not return.

HUMAN RESOURCES PROGRAM

THE CONFERENCE BOARD'S 1986 LABOR OUTLOOK PANEL

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The Conference Board's annual session on the labor outlook took place on November 7, 1985. Panel members discussed the current economic situation, compensation trends, human resource developments, labor relations, and political events. This process provided the predictions for 1986. The individual views quoted were submitted by the participants before the discussion.

*Mr. Bahr provided his views, but did not attend the meeting.

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The Conference Board
Research
Bulletin

Labor Outlook 1986

AUDREY FREEDMAN
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LABOR OUTLOOK 1986

Crosscurrents and contradictions ran through the panel discussion of the 1986 outlook. On the level of the economy, there was general agreement that a serious recession is not going to take place next year. Yet the group was very much concerned about the uniquely unfavorable economic policy choices that are developing.

At the level of private firms, the restructuring "rampage" (as one panel member characterized it) was seen as making industry more efficient. Yet the resulting insecurity is changing "the implied continuity of corporate careers." Now young managers and older ones can assume nothing about the reliability of regular advancement. Traditional corporate cultures of security, especially for salaried workers, are shattered.

Finally, at the level of the individual, the panel sees more optimism, more risk-taking and self-determining behavior. Yet there is a concern that complete individualism may undermine a society that relies on family, community and employment to discipline individual self-determination.

The overall economy will remain stable throughout 1986, though the panel expects little growth. Two members anticipate a recession this year, but one thinks it will be short and mild. Nevertheless, "if we begin a recession, the classical solutions are not available." There are serious economic dislocations. We have been "getting by," but our institutions—especially the banking system—are fragile. A much greater degree of competition within the U.S. and worldwide also feeds this sense of riskiness. Corporate reorganizations and realignment of industry structure are attempts to become more effective at competing in the world market. With customary business optimism, the panel suggests that the "accident" that might cause a crash will not occur, and that the U.S. will get through an additional year of very slow growth. The characteristics of this stable, even stagnant, economy are shown in Table 1.

Unemployment is not expected to rise. Since the labor force will grow by one to two million persons, a stable unemployment rate implies that there is at least this much job creation energy left in the current recovery. The 1985 picture, of just enough new jobs to absorb labor force growth, will continue.

Inflation is expected to remain relatively quiescent. The consumer price index measure has risen at a 3.2 percent annual rate in the first three quarters of 1985; the panel thinks we will experience slightly more price pressure next year. One reason may be the gradual decline of the dollar. Import prices rise correspondingly, and domestic producers can also raise their prices. Moreover, the pace at which the Federal Reserve has allowed the money supply to expand may begin to raise inflation levels.

Wage levels are also going to remain subdued. Average hourly earnings for non-supervisory and production workers (about 80 percent of the entire U.S. workforce) rose 3.2 percent in the year prior to October 1985. The panel projects a slight increase, to 3.6 percent during 1986. For union bargains,

Table 1: Forecasts for 1986 by The Conference Board's Labor Outlook Panel

	Median *(Percent)*	*Range* *(Percentages)*
Overall increase in average hourly earnings, January, 1986 through December, 1986	3.6	3.0 to 4.0
First-year wage and benefit increases in major union contracts	3.5	3.0 to 4.5
Increase in labor costs per unit of output in manufacturing	1.7	.5 to 2.8
Rate of inflation (average increase in Consumer Price Index)	4.0	2.9 to 4.7
Unemployment average during 1986		
First quarter	7.1	7.0 to 7.7
Second quarter	7.1	6.9 to 8.0
Third quarter	7.0	6.8 to 8.5
Fourth quarter	7.1	6.8 to 8.0

Measurement

Throughout the panel discussion there were questions about data quality. None questioned the integrity of government data; but everyone, at some point or another, raised issues about the meaningfulness of a data series. The industrial divisions for reporting are out-of-date, and the occupational taxonomy is built upon ideas of status rather than job responsibility and function. The wage data omit important new pay items like lump sum amounts. The productivity data are not congruent with these business executives' observations. The data on savings are not comprehensive.

While it is possible that this is a natural reaction to bits of unfavorable news—picking them apart because they suggest a flaw in the good feelings of the observer—the likely possibility is that the most measured economy in the world needs to update its categories and provide for new developments in its "old" measures.

next year will be somewhat higher than 1985. So far this year, fully a third of workers with new contracts got no wage increase in the first year (though most of these were scheduled to get some increase in the second or third year). The panel may expect these wage standstills to be less frequent in 1986. Asked to estimate the first-year wage and benefit increases in new 1986 contracts, the panel answered with a range from 3 to 4.5 percent. The entire compensation picture, suggested by these projections and those in the box on p.13, is that employment costs will rise between 3½ and 4 percent during 1986.

Unit labor costs in manufacturing are expected to increase 1.7 percent during 1986. With hourly wage costs rising, as the panel said, about 3½ percent, it is clear that the panel does not expect much productivity growth. (Unit labor costs are, roughly, hourly wage advances *less* increases in output produced per hour.) Its unit labor cost projection implies that productivity growth will be less than 2 percent in manufacturing. In 1985 so far, manufacturing productivity gains have exceeded this record—but only slightly.

The Labor Market

The overall labor market improvement that occurred in early years of this recovery is now reduced to a slow pace that will probably be maintained in 1986. Most of the panel members observed that job growth is not taking place in large companies, and that these may still be cutting their workforces in 1986. Joe Duncan noted that small businesses are the job creation engine of the present economy:

"I look for modest economic growth in 1986 and consequently a very small reduction in the overall unemployment rate. However, I would point out that the unemployment rate is probably not the best measure for evaluating the labor market. The employment/population ratio is a better indicator. Currently the ratio is nearly 60%, which is a significant improvement over the 57% of 1974, one decade ago (1975 was even lower).

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New York, New York

"During the current economic expansion, a major source of employment gain has been in smaller businesses. Our estimates suggest that over 70% of the new jobs created during the expansion have been with enterprises whose total employment is less than 500 workers. Nearly 30% of the new jobs have been created in firms with fewer than 20 employees. Since these smaller firms are frequently in the service sector, and since they include a number of activities that require relatively low skills (restaurants, retail outlets, business services such as cleaning, repair, etc.), there is the prospect that employment gains can be maintained among persons of lower skill levels."

The Communications Workers is a service industry union, with a manufacturing component in electronic equipment. From a union viewpoint, the employment market looks particularly bleak. Morty Bahr:

"The unemployment picture for 1986 is gloomy. The present unemployment rate of over 7% is unacceptably high. A decade ago, we would have considered this rate of unemployment to be an indication that the economy was in a recession. Today, the Reagan administration congratulates itself when unemployment declines briefly to 7.0 percent in August 1985. The unemployment rate will probably return to its plateau of 7.3% to 7.5% during 1986, and may even increase to 8%.

"Despite the Reaganites' glowing optimism, millions of Americans are out of work, and underlying problems in the economy will cause this number to grow rather than shrink in 1986. America is losing its industrial base. Over 34 months of recovery, the manufacturing sector has regained only 53 percent of the 2.3 million jobs lost during the 1981-82 recession. Every job lost in manufacturing causes secondary job losses in the service sector. As a result, the number of long-term unemployed continues to grow. During the third quarter of 1985, the number of discouraged workers who have given up looking for work increased to about 1.2 million, or 90,000 more than in the second quarter. In addition, 8.3 million unemployed workers were actively looking for work in September 1985. Because of continuing cutbacks in unemployment benefits, the majority of unemployed Americans now receive no unemployment benefits. This

fact alone bodes ill for the national economy in 1986. The resulting lower demand for goods and services can be expected to dampen GNP and employment growth next year.

"Unemployment breeds continued unemployment. But other, more fundamental problems threaten the prospects for continued economic growth. The most important is the huge Federal deficit, created by Reagan's tax cuts and massive defense expenditures, which drives up interest rates and over-values the dollar. These factors, in turn, slow economic expansion and contribute to the flood of imports. An estimated three million Americans have lost their jobs because of import competition. Early 1985 marked a turning point in the world economy, as the United States shifted from being a net creditor to a net debtor nation for the first time since 1914. The U.S. is now dependent on the rest of the world for financial security. Given the tenuous situation of the heavily indebted developing countries and the continuing economic problems of the developed countries, there may be little financial security available from the rest of the world. All these factors point toward another recession within the next five years.

"The trend in telecommunications reflects the overall problems in the U.S. economy. Total employment in the industry declined by about 13% between 1982 and 1985: New technology makes it possible to meet growing demand with fewer workers. At the same time, AT&T's decision to move telephone manufacturing to Singapore and other low-wage countries causes more job losses.

"Unless there is a sudden change in national policy, several elements point to a serious recession in 1986 or 1987. Already-high unemployment will dampen demand, causing even higher unemployment. The Federal deficit will continue to grow, driving up interest rates and slowing the recovery of the auto and housing industries. The strong dollar will encourage more imports, causing more mass layoffs and plant closings. Finally, the debt crisis in the developing countries will stifle U.S. efforts to turn around the trade deficit. Their internal economic problems will keep them from providing the markets we need to revitalize American export industries."

In the discussion, one person mentioned that there is a dearth of young people at entry age. As a consequence, some industries that depended on such workers (like the fast food outlets) are searching for help. They may have to re-design the jobs, and their appeal, to acquire enough older workers.

Management efficiency drives are cutting out excess layers and staff in large companies. The group discussed trends toward decentralizing, and centralizing, and decided that both movements are occurring. Management of large firms is being decentralized to shift responsibility and risk. Spinoffs are a more complete form of the same move. At the same time, some staff work is being centralized to avoid duplication at the business unit level. From a corporate viewpoint, such duplication is actually overstaffing.

While salaried employment is being cut back, firms are also hiring right now. Some new potential managers must be brought in, to prevent the reduced vitality that would otherwise occur. To outsiders, and especially to unions, it seems paradoxical that workforce reductions should be announced, with attendant "early retirement" policies, while the company is recruiting on campuses.

The Effects of Restructuring

In the labor market of large-scale private industry, corporate restructurings are having a heavy impact. Non-supervisory workers, nearly always affected by cyclical downturns, are also being touched by divestitures, acquisitions, and other redeployment of the corporation's resources. But now, salaried workers, managers, and executives are similarly at risk of being transferred, downgraded, retired, or simply let go. Mitchell Fromstein suggests that the new atmosphere is a response to increased competition:

> "The relative comfort and complacency of corporate management in the 1970's was brutally buffeted by successive shock waves of the 1980 and 1982 recessions, the ravages of the strong U.S. dollar, the emergence of offshore low cost producers, selective deregulation and long-term build-up of an aging and overweight U.S. industrial machine.

MITCHELL S. FROMSTEIN
President & Chief Executive Officer
Manpower, Incorporated
Milwaukee, Wisconsin

"If economic prosperity continues even at a sluggish rate, the restructuring will likely continue at a brisk pace. If, on the other hand, we slip into a recession, the retrenching is likely to grind to a halt as merger and takeover activity fade and companies concentrate on the marketplace instead of their structures of ownership.

"The initial remedial focus was on technology, productivity and streamlined production facilities but it shifted, very quickly, to the more effective employment and deployment of a firm's workforce. It began at the lowest levels but, eventually, has crept up the organizational ladder where virtually everyone's productivity and

necessity has come under close scrutiny. The mergers, acquisitions, leveraged buyouts and divestitures, in my opinion, merely provide the opportunity to complete the process begun in the recessions of reducing the total human resources cost of an enterprise. The same human resources effects attributable to corporate ownership change are, in fact, showing up in large enterprises where no change in ownership has taken place or is contemplated.

"The objectives of this broad restructuring trend seem to be twofold: First is an effort to remain competitive in the face of new pressures and insure the survival of an enterprise; and, second, to restore or protect an acceptable level of profit return on invested funds or meet the interest costs on borrowed funds.

"Whether it is 'churning of ownership' or planned restructuring, however, this trend certainly does have profound human resources effects. The harshest impact from a human viewpoint is created by staff cuts and job losses at all levels. One must bear in mind that the complacency of the 1970's era created an over-population of employees in most sizable companies, particularly at the managerial level. Close examination of a corporation's structure usually uncovers a thick layer of expendable executive and managerial costs that add little to productivity and growth, but significantly affect profits and operating flexibility. The 'layer' includes duplicated functions, obsolete positions and inefficient operations. As these layers are trimmed or eliminated, a substantial number of support people as well as executives and managers are made redundant.

"While the people who are terminated in the restructuring process have a tendency to see the process as capricious, the rationale of management is the creation of a more viable, productive and lean organization based on economic necessity.

"The social discomfort involved in the restructuring process is quite another matter. Whenever large scale terminations take place, there is at least a temporary dislocation of jobs, income and personal life. Broad scale and precipitous terminations without notice or severance provisions can leave the workforce in dire circumstances, particularly in smaller communities where a limited market exists for replacement jobs. Because the large scale restructuring is taking place in a period of economic growth (rather than recession), the job-holders find replacement work more easily and quickly. The most difficult cases are people in advanced age brackets with skills and experience that have become obsolete in a changing technical environment. Some of these people are covered by early retirement plans or severance pay programs but many are not.

"Insecurity rising from the restructuring trend is difficult to measure but is certainly a prevailing social factor. Virtually everyone involved suffers some permanent loss of a sense of job security. One broad result is substantial weakening of the ties between individual and corporation. This sense of 'community' which has long pervaded the American labor scene has disappeared at least for a decade while the scars of restructuring will be visible.

"In fact, however, the real security of those who remain will be substantially strengthened. The restructuring process, when complete, leaves a lean organization that is highly dependent upon a smaller group of essential people at all levels. This group of survivors will likely be protected, better compensated, covered by better benefits and, in every way, more secure than they were in the previous organization. Thus, while the perceptions of insecurity will prevail, the reality will be quite different in most instances.

"It is highly unlikely that a newly-restructured organization will quickly return to a policy of over-hiring to meet fluctuating workloads. While the society is left to deal with the problems of short-term dislocations, the emerging structures should be better-equipped to face future market conditions and cyclical swings.

"In short, I believe we are moving to a structure where cyclical layoffs and terminations will be much less frequent and the continuity of working life will be more dependable.

"Shifts in ownership and restructuring are resulting in changes (sometimes a complete reversal) in previous human resources policies. This is not only an expected result of the actions previously described but it is, in fact, sometimes the prime motivation for that action. Structural change, whatever the cause, opens the door for management to correct or modify those policies that have grown in a different environment. Thus, competitive wage levels, hiring practices, fringe benefit programs and traditional perks of every kind become a principal subject for re-examination. In the case of ownership change, the previous policies are simply abandoned without notice or explanation. In the case of planned restructuring, they are labeled 'take-backs' and are carefully removed or negotiated downward with an existing labor organization. The result is the same. Only the methods used are different.

"It is worthwhile, I believe, to note here that organized labor is responding in a very mature and responsible manner to this phenomenon—often more responsibly than the management who reverses the policies. In many cases, it was poor management policies that created the problems being solved by the 'take-backs' and, yet, union leadership frequently accepts the results in a very pragmatic way. (Perhaps the realities of the workplace are often better understood by the troops than by the generals who rely on theory and concept in planning strategies.)

Alan Ewalt said that, in the course of restructuring, his company had shifted its "values." Again, the pressure of new competition is the cause:

ALAN R. EWALT
Senior Vice President
National Medical Enterprises
Los Angeles, California

"Our own company's history of paternalistic human resource practices has been challenged by the dramatically changing competitive structure within the health care industry. These practices have been re-examined and reviewed with some significant cultural impact. When the values of loyalty, efficiency and productivity clashed, there was a healthy but necessary reordering. The implication is clear to our employees that there is a renewed and heightened emphasis on efficiency, not just effectiveness, and the shift in balance is having important ramifications at all levels as the organization streamlines.

"The 1986 environment is different from previous environments. Because 'churning' is happening in a number of industries—communications, banking, transportation, health care—it is viewed as non-company specific and is a sign of the economic times in 1985. If nothing else, this environmental issue makes the implementation of corporate restructuring perhaps slightly more palatable to our employees than if we were the only company realigning itself. The human resources consequences are more significant today as dissimilar cultures come together in a merger: benefit plans are incongruent, incentive plans must emphasize new kinds of outcomes; companies that are downsizing may be reversing policies or terminating good performers because of a change in the market emphasis.

"Incidentally, I have seen a substantial increase in the number of professional outplacement organizations that are either newly formed or are expanding their activities to help employers cope with restructuring, particularly focusing on supporting longer-term employees."

Ben Dial linked the effects of restructuring to technological change and progress in the economy. Then he added that a high level of job loss "shock" might bring some public policy reactions.

"The growth in domestic, information-age employment opportunities has not yet offset the irretrievable loss of production jobs. If U.S. production increases, it will be in highly automated plants using technology such as robotics to undercut foreign labor costs. This scenario offers poor re-employment prospects for American unskilled and semi-skilled workers.

"Advances in computerized data processing capabilities, including major strides in artificial intelligence and user-friendly information access, will apply additional downward pressure on traditional middle management, staff and clerical support jobs.

"The proportion of total operating costs attributable to employee-related expense grows as the workforce's orientation shifts from production/industrial to information services. Traditionally, line-production environments could expect approximately 60% of total operating costs to go toward wages, salaries and other employee expense; staff environments could expect closer to 80-85%. The information-age workplace emulates the traditional line environment, particularly in cost allocation.

BENTON W. DIAL
Executive Vice President-Human Resources
Pacific Telesis Group
San Francisco, California

"It follows that, for firms cutting costs to improve competitive posture, the human resource becomes a primary target.

"Although it is unlikely that many companies will guarantee employment in a free enterprise system, it would be disadvantageous for U.S. firms to act callously toward employees. Such an attitude would exacerbate the morale and productivity problems already attributed to job insecurity. If U.S. businesses will not protect the American worker from unemployment, then eventually the U.S. Government will be much more apt to legislate protection. An example of such legislation already pending is H.R. 1616, which would require employers to give a 90-day advance notice of any plant shutdown involving fifty or more employees. Another bill, recently introduced, would lower pension fund vesting requirements for a deferred vested pension while simultaneously enabling employees to take their accrued pension benefits with them, without loss or penalty, when they leave one employer to join another."

Use of Contingent Employees

"The trend toward hiring contingent employees is the most significant change in labor markets occurring today"—Joe Duncan. Pete Pestillo explained why:

- "Organizations need to respond rapidly and agilely

PETER J. PESTILLO
Vice President-Employee Relations
Ford Motor Company
Dearborn, Michigan

to changing customer demands. Markets are increasingly specialized/customized.

- "Significant overhead and labor cost savings can be realized, and today's and tomorrow's competitive pressures provide the compelling need to hold down costs, especially in labor-intensive industries.
- "Temporary employees provide employers greater flexibility in dealing with workload peaks and valleys, whether they be daily, weekly, seasonal, or to meet the needs of a specific project.
- "The traditional need for temporary employees to cover vacations and absences remains, but with the rapid introduction of new technology in the office and on the factory floor, temporary replacements are needed with increasing frequency to cover training and retraining of regular employees.
- " 'Outsourcing' of data processing, and information services, is available from specialized service-delivery firms and organizations.
- "The segment of the work force which voluntarily seeks temporary or part-time employment is increasing, i.e., homemakers and retirees who want to supplement income."

Duncan added that company incentives to use contingent workers, beside flexibility, are:

"1. Ability to add workers with specific skills without the attendant costs of training or retraining.

2. Lower fringe benefits in the longer term, especially pension and health care costs.

3. Demonstration to current labor force within the firm that job security is not guaranteed, and consequently that efficiency and productivity are critical for continued employment of the individual worker."

Bill McCann described a variety of arrangements: permanent part-time, single-company temporary arrangements, employment within a contract leasing company or temporary help service, and free-lance or self-employed consultant. He then described some arrangements that are specific to the trucking industry:

"In our city pickup and delivery operations, frequently the need occurs for the transportation services provided by small local cartage operations at certain times of the week when our business is the heaviest. These 'cartage' companies employ their own people and provide a more timely and efficient service in periods of fluctuating business.

"Another example involves shippers who employ leasing companies to perform their entire transportation service on a contract basis, either instead of or in addition to their own transportation fleet.

"A third example involves the use of 'casual' employees in our dock operations as needed to replace absentee regular employees or as supplements to the existing operation as a result of a temporary increase in work flow.

WILLIAM F. McCANN
Vice President-Labor Relations
Consolidated Freightways Corporation
Menlo Park, California

In recognition of the need to continue this type of operation and in light of the competitive developments since deregulation, the Teamsters agreed in contract negotiations this year to allow employers to use casual employees at a wage approximately 20% below the full contract rate, in exchange for assurances that companies would add regular, full-time employees under an agreed-to formula.

"In over-the-road operations many companies are utilizing independent contractors or owner operators who are employees of fleet owners to move inter-city freight, again providing the flexibility to smooth out cyclical or seasonal surges."

Alan Ewalt described contingent employment arrangements that are particular to the health care industry:

"Our industry has always been strongly oriented toward the use of part-time and contingent employees. We refer to contingent employees as 'on-call.' Such an alignment is essential to adapt the staffing levels to meet required patient care at variable patient census levels. This practice is less dramatic in non-acute care sectors of our company where there is a steadier demand, but there is still an emphasis on the use of part-time and on-call employees. Our hospitals also maintain an in-house registry of nursing and medical talent which is used to meet 'flex' staffing needs.

"In the administrative area we increasingly use temporary help to meet periodic demands of extra workload, vacation, etc. Our corporate response has been to

develop a pool of talent as corporate floaters that is available for use in various departments, but not permanently assigned to any one.

"Employee leasing is an option that appears to be popular for physicians' offices, but has not caught on in the rest of the industry. We experimented with employee leasing, but were not enthusiastic about results and eventually sold the subsidiary."

In banking, Irving Margol sees a growing part-time workforce, enabling the system to staff for peak operations only when needed. The output-per-hour of part-timers, then, is maximum:

"My organization has used hundreds of temporary employees for years. This type of individual is hired as our own employee, but is hired knowing there is no promise of job security since the position is temporary. This type of employee continues to be very valuable during peak hours in banking offices and certain production areas such as proof operations. They have also been an excellent source for staffing regular positions as they occur. The use of the temporary employee has minimized the need for downsizing regular staff during slow periods.

IRVING MARGOL
Executive Vice President
Security Pacific National Bank
Los Angeles, California

"We have also used temporary agency personnel on a more limited basis. I do not see a trend toward an increase in the use of temporary agency personnel or leasing in the financial industry. However, we do see a trend toward the use of more regular part-time employees."

Mitchell Fromstein pointed out that one part of contingent employment, those working for a temporary help service firm, has grown about as fast as employment generally—not faster. At present, the temporary help service industry has about 600,000 people at work in any one week. Temporary work rises and falls with the business cycle, too. However:

"The general use of contingent workers of all types has increased and the trend has created large numbers of jobs for contract workers, self-employed individuals, part-timers, etc. These positions, however, do remain precarious from a job security viewpoint. The temporary help service industry is able to reassign workers who are no longer needed on a specific assignment or project, thus lightening the impact of workforce shrinkage on that group of contingent workers. In addition, the larger temporary help firms provide their workers with at least a safety-net group of benefits (health insurance, vacation, holiday pay) to replace the absence of benefits among contingent workers.

"Employee leasing is a totally different phenomenon which involves the transfer of permanent employees to the payroll of an outside firm. It is usually motivated by a desire to unshoulder pension responsibility, collective bargaining problems and other employee relations issues. It is found most frequently in small firms that want to avoid the obligations, cost and involvement of these programs. In my opinion, it does not belong, logically, among the flexibility options as it is not flexible. Further, I believe it is a fad with limited application which will ultimately disappear or be legislatively removed from the business scene."

The use of contingent employees as a "buffer," to protect the employment security of regular employees, has been noted by many analysts. Where a company is trying to stabilize employment for part of its workforce, it will be under pressure to designate an area of insecurity at the margin. This area will be occupied as needed by one or another kind of contingent workforce. Ben Dial spotted this kind of arrangement in the Saturn contract:

"Contingent employees are used as a buffer to protect regular employees from cyclical increases and decreases in demand. Many of the firms that use temporaries do not have union-represented employees. However, the Saturn agreement between the UAW and General Motors suggests that organized labor may not necessarily oppose using this method of securing employment, as long as the mass of employees is protected. The Saturn contract calls for protected members and less protected associate members."

Peter Pestillo, speaking from an auto industry vantage, has some negative undertones in his assessment:

"For those who have to accept temporary or part-time work as a compromise, i.e., involuntary part-time, this condition becomes a personal hardship. For many, they 'hang in,' hoping that an opportunity for regular full-time employment will occur. There is no question that this phenomenon can create personnel problems, and over time, the lack of attachment leads to a lack of identification, loyalty, and interest in helping the organization achieve its goals. Worse, a feeling of exploitation could develop where the individual perceives that his or her temporary status is becoming permanent—without benefits.

"While unions may not like the trend (whether the temporary, part-time or contingent employees are organized or not), the employer community will not be inclined to risk loss of flexibility or their company's survival by abandoning such options. As unions press

for greater job security for their present members in pursuit of 'life-time employment,' the pressure for employers to designate a significant portion of future hires as temporary employees has the potential for providing greater stability to regular full-time employees.

"Compromises are emerging from collective bargaining, some of which could be characterized as 'pilots' or 'experiments.' A clear picture has not emerged, and various forms of this issue will continue to be on the table well into the future."

Morty Bahr is totally opposed to the use of contingent workforces:

"There are many pressures for the increased use of 'contingent,' or temporary employees. Some companies which are widely viewed as models of excellent employee relations, such as IBM, use temporary employees as 'buffers,' adding them during busy times and laying them off during recessions. Although this benefits the 'permanent' employees and allows a policy of lifetime job security, it does so at the expense of another group of workers, the temporaries. For this reason CWA has always opposed and still opposes the use of temporary employees, contractors, and part-timers.

"Although uncertainty in the economy, the high costs of full-time employees with benefits, and the high unemployment rate all encourage the increased use of 'contingent' employees, this trend is unlikely to continue. The most important reason is that it hurts workers. Temporaries have no job security, often lack fringe benefits, and may be required to work either more or less hours than they would like. They may be paid on a piece-work basis for work such as word processing, which causes tremendous stress along with the anxiety of not knowing whether they will be employed tomorrow. While a few energetic younger workers may enjoy the independence and temporarily high earnings they can achieve by working quickly for long hours, over the longer term they are unlikely to accept such situations. The first time a single mother working as a temporary secretary without health benefits falls ill, she may get by on savings or on free service by community hospitals. But she will see to it that this does not happen a second time by finding a more secure job.

"The reason that the use of temporary employees is unlikely to increase is that it hurts the companies as well as the workers. Firms that are unwilling to commit to their workers by hiring them as full-time employees cannot expect any commitment from the employees.

"Companies that rely on temporaries or contractors hope to reduce the costs of training and other investments in employees. But failing to invest in their most important asset—their human resources—may turn out to be a costly mistake in the long term. Retraining current employees is often less expensive than hiring contractors who don't know the company's rules, procedures and overall culture. One telephone company has decided to retrain its own cable splicers in fiber optic cable splicing, rather than hiring a contractor as it had planned to do. Company and union agreed that it was most cost-effective to retrain current employees who knew the terminology, health and safety practices, and driving skills required by the company.

"The final reason that the use of 'contingent' employees will not increase is that unions will not allow it to increase. CWA recently went on strike against a Bell Operating Company that hired contractors to install switching equipment. The strike was settled when the company agreed to use its own employees—our members—to do the work. Our position is that all use of contractors and temporaries must stop, and we are prepared to take any action necessary to stop it."

In the discussion, contingent employment was regarded as another form of "two-tiered" arrangement (somewhat like union bargains that allow lowered wages for any new employees hired after the contract is negotiated). When the group agreed that many employees want and seek this kind of work, one member observed that employers often think people "really prefer" the only choice available to them. In this case, less employment regularity may be the only option open in today's labor market.

Employment-at-Will

In some jurisdictions there is a growing weight of legal opinion that limits the employer's power to discharge without cause. Dan Mitchell gave this as a reason for hiring contingent workers:

"The legal system—especially here in California—has been moving in the direction of adding to the employer's obligation to employees. Wrongful discharge suits have become big business in California. Some employer groups have actually promoted a bill in the legislature to provide for arbitration of discharges with limited remedies. They would like to get control of what is viewed as a runaway situation. Use of temporaries tends to remove the legal obligation. Courts would be unlikely to view an employer as having heavy obligations to someone who has an explicit, short-term agreement. (Employee leasing and hiring workers as self-employed contractors falls into this category.)

"I suspect that in a few years, California will have some state legislation in this area. South Carolina has a mechanism whereby a state body may intervene on behalf of a discharged employee. Cooperation with the program is entirely voluntary on the part of the employer. I have heard mixed reports of the effectiveness of this approach. But one can imagine other states going the voluntary route as a compromise, on the argument that we should see what can be accomplished voluntarily before setting up a mandatory system.

"One issue to consider is the remedy in discharge cases. Under the traditional arbitration system in the union sec-

DANIEL J.B. MITCHELL
Director, Institute of Industrial Relations
University of California
Los Angeles, California

tor the remedy for improper discharge is reinstatement with back pay. My understanding of the European approach is that monetary damages are more likely to be the remedy. Indeed, there have been a number of cases involving high level executives where it must be assumed that the remedy being sought is money, not reinstatement. More attention should be given to the money damages option. (Maybe even arbitrators under union-management contracts ought to be considering it.)"

Panel members agreed with this. One observed that when an employee is placed back on a job by an arbitrator, "he never works again."

David Lewin pointed out that this is one of at least three employee relations subjects where state, rather than Federal,

DAVID LEWIN
Professor of Business
Columbia University
New York, New York

regulation seems to be developing. He suggested that some human resources law will thus become "Balkanized":

> "One of the difficulties faced by employers with respect to the unjust discharge phenomenon is that in the absence of a Federal statute governing decisions in this area, each state in effect makes its own policy, typically through the common law. Therefore, a firm operating in several U.S. states must monitor legislative and judicial developments in those states in order to know how to respond to claims of unjust discharge. This is comparable to employer monitoring of comparable worth and plant closing developments at the state government level—two other areas of human resource management that are not regulated at the Federal level."

The group discussed what the legal or legislative outcome would be, but did not agree. Some felt that the court system would develop the law. One said, with resignation, "large multistate employers need consistency, so we will probably go for Federal regulation, accepting whatever penalty comes with the need for nationwide consistency." Most of the panel felt that there is a potential for enhanced labor market regulation in the current multiplicity of state "initiatives," but not in the near term. Mitchell Fromstein concluded:

> "The ultimate result will most likely be a legislated termination process, particularly for non-executive employee levels."

Morty Bahr agrees:

> "The growing success of unjust dismissal suits gives greater protection to the large segment of the American work force which is not yet unionized. Employers may find themselves faced with new organizations such as worker associations formed with the help of unions. CWA is prepared to tap the discontent reflected in the growing number of unfair dismissal suits through any and all means. We will represent workers as members, associate members or through other forms of organization, depending on their needs and desires. More and more companies are realizing that although they can avoid unions they cannot ignore the basic employee rights that unions provide without reprisal.
>
> "Despite their best efforts, employers will find their actions restricted by state and Federal laws. As this awareness grows, employers may slow their sophisticated and often illegal tactics to stop union organizing. Given the choice between dealing with a complex web of laws and rulings and dealing with a union, employers may decide that unions are not so bad after all."

The threat of lawsuits is also changing personnel practices, as Ben Dial reports:

> "The increased likelihood of litigation and the potential for large damage awards have forced employers to scrutinize decisions to dismiss or demote employees. Because many of the decisions expanding employees' rights are premised in part on 'implied contractual terms emanating from corporate practices and procedures,' employers have been reviewing all forms of communication and modifying any statement which might imply unintended rights or obligations. Some employers have modified employment applications and other appropriate documents to disclaim contractual intent and to affirm the company's right to dismiss an employee with or without cause. There is also an increase in the use of formal employment contracts at both upper and lower levels of management.
>
> "More employers are developing outplacement procedures to head off potential litigation. These procedures may include job counseling and monetary payments. The use of internal review procedures allowing employees to challenge adverse decisions is also on the rise."

Irving Margol gave some examples from his bank:

"In order to avoid legal problems, Security Pacific has rewritten and updated all policy manuals which may suggest indefinite job security. One example is the following section which was recently added to the Personnel Manual and the 1985 Bank Policy Book: 'Nothing in this handbook or in any other communication, either written or oral, by any representative of the bank, made at the time of hire or during the course of employment, shall create or is intended in any way to create a contract of employment expressed or implied.'

"If, for any reason, an employee is discharged, it must be approved by an employment officer, and all relevant bank policies are strictly enforced.

"In those discharge cases of a more controversial nature, a long-standing employee may be given full salary for a pre-determined period of time, even though he or she is no longer reporting to work. Voluntary terminations handled in this manner are believed to save the bank money in the long run as they may avoid future monetary loss in court battles."

During the discussion of unjust discharge suits and countermeasures, one panel member observed dryly: "Human resource management flourishes as a career when there is an external pressure."

Wage Trends

"In spite of union concessions and the breakdown of pattern bargaining, union settlements still drive expectations." Two panel members agreed with this statement—then one quickly pointed out how much dispersion has developed among those settlements. All agreed that "one big number does not jump out anymore." Also, a much lower rate of inflation removes the other "big number."

Two bargains that will probably become dispersed to "many" appear on the calendar in Table 2: steel and communications. In steel, multi-company coordination has fractured and each company will negotiate by itself, tailoring the bargain to its individual needs if possible. The domestic industry's market is shrinking, as is its workforce.

In communications, bargaining will also be dispersed, because the Bell System was broken up by court order. Ben Dial observed:

"1986 will be a pivotal year for bargaining in the telecommunications industry. In no other industry have there been so many dramatic changes in the structures of its major players since 1983 contract talks. Both unions and management will be looking at 1986 as a course-setting opportunity.

"Competition and resulting public policy, of course, are the major forces driving such changes. They were beginning to occur long before the AT&T breakup. There had arisen an increasing number of telephone facility and equipment providers; Western Electric's monopoly was gone long before divestiture. There were aggressive alternate providers of long distance services as long as ten years ago.

"In this new environment, competition will drive human resources practices and wage policies to be more aligned with local conditions. Wages will have to become more market-driven than before, balancing cost considerations with the need to attract and retain competent workers who have the technical skills sought by local newcomers to the industry.

"Another important consequence of this new competitive environment is a shift in what is expected of employees. If we are to be successful, a work culture must be encouraged that rewards customer-focused behavior, prudent risk-taking, continuing skill/educational development, and self-management. There is a movement toward a leaner, flatter organizational structure, and away from one that is governed by written practices and rules.

"The regional holding companies face another challenge. Most of the newcomers to the telecommunications industry have employees who are not currently represented by unions. AT&T will probably be faced with the same situation. This could give some companies a labor cost disadvantage, unless there is willingness between union and management to work together toward enhanced competitiveness. This has already started to occur at Pacific Bell. CWA leadership and senior management recently developed an employment security agreement that empowers local 'Common Interest Forums,' consisting of union local presidents and regional senior management, to make decisions on local conditions enhancing employee security and resolving related labor problems.

"A totally new group of bargainers will be seated in 1986, representing eight increasingly different companies. The post-divestiture environment will probably find the regional holding companies all concerned about labor costs in their respective areas. However, as each begins to pursue these goals, diversity will begin to arise in most human resources practices. Local economic conditions, the state of the competition, the personalities of the bargainers at the 1986 tables, and the evolving cultures of the companies will all contribute."

Morty Bahr observed: "AT&T was broken up. CWA was not." He will try to prevent differentiation from occurring:

"In 1974, CWA at last achieved a long-sought goal: a nationally bargained contract with AT&T. Because of divestiture, the last such contract was negotiated in the Summer of 1983. As we look ahead to 1986, one of our principal goals is to approximate national bargaining as closely as possible. We would prefer to negotiate as few contracts as possible and are now holding discussions with the companies about the possibility of having regional contracts. So far, BellSouth and Nynex have